

Message Text

LIMITED OFFICIAL USE

PAGE 01 HELSIN 01007 01 OF 02 161526Z

ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

SP-02 LAB-04 EPG-02 SIL-01 OMB-01 NSC-05 SS-15

STR-04 CEA-01 PA-01 PRS-01 L-03 H-01 /087 W

-----161759Z 020291 /45

R 161443Z MAY 77

FM AMEMBASSY HELSINKI

TO SECSTATE WASHDC 1361

INFO AMEMBASSY COPENHAGEN

AMEMBASSY OSLO

AMEMBASSY STOCKHOLM

USMISSION OECD PARIS

LIMITED OFFICIAL USE SECTION 1 OF 2 HELSINKI 1007

EO 11652: N/A

TAGS: ECON, PINT, FI

SUBJECT: ECONOMIC PROGRAM OF SORSA GOVERNMENT

REF: HELSINKI 1000

1. SUMMARY: THE NEW GOVERNMENT HAS ANNOUNCED EXPANSIONARY ECONOMIC POLICY AIMED AT STIMULATING DOMESTIC ECONOMY AND REDUCING UNEMPLOYMENT. KEY FEATURE IS INCREASED FOREIGN BORROWING TO FINANCE INDUSTRIAL EXPANSION. BOTH SUBSTANCE OF PROGRAM AND GOVERNMENT'S INTENTION TO DIRECT IT THROUGH NEW OFFICE IN FINANCE MINISTRY RAISE POSSIBILITY OF CLASH WITH BANK OF FINLAND WHICH HAS FOLLOWED FOR TWO YEARS TIGHT MONETARY POLICY COUPLED WITH REDUCTION OF FOREIGN BORROWING. END SUMMARY.

2. ECONOMICS PREDOMINATES IN NEW GOVT'S POLICY PROGRAM MADE PUBLIC MAY 14. MAIN FEATURES OF ECONOMIC POLICY ARE FOLLOWING:

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 HELSIN 01007 01 OF 02 161526Z

(A) THERE IS NO EXPECTATION IN NEAR FUTURE OF SIGNIFICANT REVIVAL OF EXPORT DEMAND WHICH WOULD SUPPORT RECOVERY OF DOMESTIC ECONOMY AND IMPROVEMENT OF EMPLOYMENT.

(B) GOVT WILL INTRODUCE DELIBERATE AND SELECTIVE

PROGRAM OF INCREASING FOREIGN BORROWING TO FINANCE EXPANSION OF PROFITABLE EXPORT INDUSTRIES, TO PROMOTE IMPORT SUBSTITUTION, TO INCREASE CAPITAL STOCK OF STATE-OWNED COMPANIES AND TO FINANCE ENLARGE ENERGY PROGRAM.

(C) LARGE SHARE OF NEW FOREIGN BORROWING WILL BE CHanneLED THROUGH GOVT-CONTROLLED INSTITUTIONS, E.G. INDUSTRIAL INVESTMENT FUND, REGIONAL DEVELOPMENT FUND AND STATE-OWNED COMPANIES.

(D) GOVT WILL ATTEMPT TO INCREASE ITS CONTROL OF CAPITAL FLOWS THROUGH NEW OFFICE IN FINANCE MINISTRY WHICH WILL SET AGGREGATE LEVEL OF INVESTMENT AND PROVIDE GENERAL GUIDELINES FOR INVESTMENT SPENDING.

(E) PUBLIC FUNDS WILL BE INCREASED FOR HOUSING CONSTRUCTION TO ALLEVIATE DOWNTURN IN CONSTRUCTION CAUSED BY TIGHT MONETARY POLICY. (THIS IS ESPECIALLY IMPORTANT TO SKDL, COMMUNIST ELECTION FRONT WHICH CONTROLS THE CONSTRUCTION UNION.)

(F) GOVT'S REGIONAL POLICY PROMISES TO REDUCE UNEMPLOYMENT IN THOSE AREAS WHICH HAVE SUFFERED MOST FROM LABOR MIGRATION.

(G) GOVT INTENDS TO FOLLOW PRICE, TAX AND AGRICULTURAL POLICY THAT WILL ENSURE CONTINUATION OF RECENTLY CONCLUDED TWO-YEAR WAGE AGREEMENTS, WHICH HAVE INFLATION LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 HELSIN 01007 01 OF 02 161526Z

REVIEW CLAUSES.

(H) GOVT PROMISES IN ITS TAX POLICY TO KEEP TAXATION LEVEL CONSTANT (IN 1976 TAXES GREW FROM 37 TO 41 PERCENT OF GDP). PROGRESSIVE INCOME TAXES WILL BE REDUCED IN PACE WITH INFLATION TO MAINTAIN REAL RATES OF TAXATION. THERE WILL BE NO TRANSITION FROM TURNOVER TAX TO VALUE ADDED TAX THIS YEAR OR THE NEXT. (EXPORT INDUSTRIES' COMPETITIVENESS WILL THUS CONTINUE TO BE HAMPERED BY LACK OF THE EXEMPTION OF CAPITAL EQUIPMENT THAT VAT WOULD PROVIDE.)

3. ALTHOUGH THERE ARE NO SIGNS OF REVIVAL IN FINLAND'S IMPORTANT EXPORT MARKETS, SORSA HOPES THAT NEW GOVT WILL BE REMEMBERED AS GOVT OF ECONOMIC RECOVERY. GOVT SEES NO SHORT-CUT TO FULL EMPLOYMENT, BUT IT HAS ANNOUNCED THAT IT WILL RELY ON FOREIGN BORROWING TO REDUCE UNEMPLOYMENT AND IDLE INDUSTRIAL CAPACITY. IN INTERVIEW, SORSA STATED THAT GOVT WOULD NOT SEEK

ONE LARGE FOREIGN LOAN, BUT WOULD USE SEVERAL SMALL
LOANS AS NEED ARISES.

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 HELSIN 01007 02 OF 02 161619Z
ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-07 NSC-05
EPG-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00
COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03
LAB-04 SIL-01 L-03 H-01 PA-01 PRS-01 /087 W
-----161759Z 021076 /45

R 161443Z MAY 77
FM AMEMBASSY HELSINKI
TO SECSTATE WASHDC 1362
INFO AMEMBASSY COPENHAGEN
AMEMBASSY OSLO
AMEMBASSY STOCKHOLM
USMISSION OECD PARIS

LIMITED OFFICIAL USE SECTION 2 OF 2 HELSINKI 1007

4. DURING PAST FOUR YEARS FOREIGN BORROWING HAS
BEEN IMPORTANT SOURCE OF FINANCING INVESTMENTS
WHICH HAVE HELPED TO MAINTAIN HIGH LEVELS OF
EMPLOYMENT. FROM 1973 TO 1976 FINLAND'S FOREIGN DEBT/
GDP RATION INCREASED FROM 11 TO 22.5 PERCENT. BANK OF
FINLAND HAS FOLLOWED FOR TWO YEARS POLICY OF REDUCING
FINLAND'S FOREIGN BORROWING WHICH HAS RESULTED IN
NOTICEABLE REDUCTION OF INVESTMENT SPENDING AND SUDDEN
INCREASE IN UNEMPLOYMENT. GOVT'S ANNOUNCED PROGRAM
TO RELY ON INCREASED FOREIGN BORROWING TO REDUCE
UNEMPLOYMENT WILL COME INTO DIRECT CONFLICT WITH
TIGHT MONETARY POLICY OF SEMI-AUTONOMOUS BANK OF FINLAND.

5. WILLINGNESS OF PRIVATE ENTERPRISES TO INCREASE
FOREIGN BORROWING UNDER CURRENT SITUATION HAS WEAKENED.
FIRMS HAVE HEAVY DEBT BURDEN, EXCESS CAPACITY AND
STAGNANT OR DECLINING SALES. MOST OF GOVT'S
PROPOSED BORROWING WOULD INCREASE SIZE OF STATE-CONTROLLED
COMPANIES AND FINANCIAL INSTITUTIONS.
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 HELSIN 01007 02 OF 02 161619Z

AT SAME TIME, GOVT PROPOSALS WOULD WEAKEN BANK OF FINLAND'S
ROLE IN CONTROLLING FOREIGN BORROWING BY INTRODUCING
INVESTMENT POLICY OFFICE IN FINANCE MINISTRY AND APPARENTLY BY
BORROWING DIRECTLY FROM FOREIGN CAPITAL MARKETS WITHOUT
BANK OF FINLAND APPROVAL.

6. TIMO LAATUNEN, DIRECTOR OF CENTRAL ASSOCIATION
OF FINNISH INDUSTRIES, STATED IN WAKE OF NEW GOVT'S
PROGRAM THAT INCREASED BORROWING IS NOT THE ANSWER TO
TODAY'S PROBLEMS. BANK DIRECTOR OF FINLAND'S LARGEST
COMMERCIAL BANK (KOP), MATTI HURME, CRITICIZED GOVT
PROGRAM AND SAID THAT FOREIGN BORROWING WILL
NOT IMPROVE THE COMPETITIVENESS OF FINLAND'S
EXPORTS. IN DEFENSE OF PROGRAM, PEKKA KORPINEN,
DIRECTOR OF WORKER'S ECONOMIC RESEARCH INSTITUTE,
CLAIMED THAT SINCE BEGINNING OF YEAR FINLAND HAS BEEN
CAPITAL-EXPORTER AND THAT IT NOW TIME TO CHANGE DIRECTION.
HOUSTON

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, INDUSTRIAL DEVELOPMENT, ECONOMIC PROGRAMS, LOANS
Control Number: n/a
Copy: SINGLE
Sent Date: 16-May-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977HELSIN01007
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770173-0545
Format: TEL
From: HELSINKI
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770554/aaaabuin.tel
Line Count: 191
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: ae274693-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 77 HELSINKI 1000
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 02-Feb-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2508924
Secure: OPEN
Status: NATIVE
Subject: ECONOMIC PROGRAM OF SORSA GOVERNMENT
TAGS: ECON, PINT, FI, (SORSA, KALEVI)
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/ae274693-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009